

Why Hunter Harrison doesn't want freight here

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Hunter Harrison has been thinking about Chicago for a long, long time. The 72-year-old is a legend in the railroad industry, a turnaround specialist who changed the fortunes of three railroads and is looking to do it again as the newly installed chief executive at Jacksonville, Fla.-based CSX. For almost a decade he's been looking for ways to divert freight away from infamously congested Chicago, where it can take a train 32 hours to pass through.

"Chicago is busting at the seams," Harrison says. "If you look at the total rail infrastructure, everybody wants to expand in Chicago, and it's not going to work. Before it's too late, you got to have some foresight to what are the alternatives."

So where should those goods go instead? Cities "all up and down the Mississippi River," he says, starting at New Orleans and heading north.

That calls into question the future of a new train-and-truck freight terminal that just a few months ago the top brass at CSX were eager to build in Chicago's south suburbs. The Crete intermodal terminal—so called because containers move from one mode of transport to another—is slated to cost \$230 million and could help the railroad capitalize on an influx of freight from East Coast ports. While some homeowners have opposed the development, it has been pushed by Crete's political leaders as a way to bring jobs. It is scheduled to open in 2020, but groundbreaking is at least nine months away.

Now that plan is under review, Harrison says. When it comes to infrastructure, "clearly, Chicago is overbuilt." Given that, "I'm not so sure you'd want to be building there."

But experts say it is exactly that existing infrastructure that makes diverting freight away from the heart of the North

American rail system easier said than done. Sam Skinner, U.S. secretary of transportation under President George H.W. Bush, says it would cost railroads dearly to rebuild tracks, yards and signals elsewhere. "I don't see the federal government funding something like that," he says.

CEO'S BACKSTORY

A native of Tennessee, Harrison landed his first job in the railroad industry in 1963 oiling undercarriages for \$1.50 an hour. In the mid-1990s, he took over troubled Illinois Central, a company with 19th-century roots that once hired a lawyer named Abraham Lincoln. There Harrison unrolled his "precision railroading" strategy: The railroad commits to running trains at scheduled times, even if they aren't full, guaranteeing customers that the freight will arrive on time. The company's operating ratio, a measure that shows expenses as a share of revenue, plummeted from 99 to 62.3. In 1999, it merged with Montreal-based Canadian National.

Harrison became chief executive of Canadian National in 2003, using his playbook to more than triple profit. He also bought the Elgin, Joliet & Eastern line in 2009 for \$300 million to run trains from western Canada through Chicago's western suburbs and dodge downtown bottlenecks.

He retired from Canadian National in 2009, but retirement didn't take. Three years later, backed by activist investor Bill Ackman, he landed atop Canadian Pacific. While there, he tried for two separate mergers with eastern railroads, first CSX, then Norfolk Southern. Neither deal went through.

Harrison sees no logic to two duopolies centered on Chicago, one that moves freight west and one east. "If you had it to do over again, you wouldn't do the system like that. . . . There's a better way to do it, but I just personally (have) failed so far."

Freight volume passing through Chicago has been rising since 2009. Joseph Szabo, executive director of the Chicago Metropolitan Agency for Planning, says that while Harrison has taken a hard look at Chicago at every railroad he's ever run, there's no reason to be concerned. First, anything that lubricates the national rail network benefits the overall system. Second, Chicago's centrality to that network functions like a well: "It doesn't matter how much water you take out of the well, there's this steady stream coming in," he says. "We're going to continue to get our share."

But CSX owns more assets in the Chicago area than either of the Canadian railroads, and Harrison says that's an opportunity to wield more influence. He is considering partnering with another railroad to divert freight. He says he won't do it through a merger, though. "I'm on a short-term contract (at CSX), and anything that might happen in the future in the way of M&A will be post-Harrison."

As for the Crete intermodal terminal, Szabo says with Harrison giving it a fresh look, it's hard to predict what will happen. "All bets are off."